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UNCLAS BRATISLAVA 001059

SIPDIS

STATE FOR EB/IFD/OMA LGALLAGHER

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SUBJECT: TRANSPARENCY OF BUDGETS/MILITARY SPENDING

REF: STATE 239929

1. THE FOLLOWING ARE ANSWERS, PER REFTEL, TO THE AUDIT AND REPORTING PROCESS FOR MILITARY EXPENDITURES IN SLOVAKIA BASED ON RESPONSES FROM THE MINISTRY OF FINANCE (MOF).

2. HOW ARE MILITARY EXPENDITURES AUDITED? ACCORDING TO SLOVAK LEGISLATION, THE MINISTRY OF DEFENSE (MOD), AS WELL AS OTHER MINISTRIES, ARE NOT REQUIRED TO SUBMIT AN ANNUAL AUDIT, IN THE SAME WAY THAT COMMERCIAL FIRMS DO. HOWEVER, THE MOD REPORTS QUARTERLY ON THE MANAGEMENT OF BUDGET FUNDS TO THE PARLIAMENTARY COMMITTEE OF DEFENSE AND SECURITY. AT THE END OF THE BUDGET YEAR, THE MOD COMPILES A FINAL ANNUAL DEFENSE ACCOUNT BALANCE, WHICH MUST BE APPROVED BY THE PARLIAMENT AS PART OF THE OVERALL CLOSURE OF ACCOUNTS FOR THE NATIONAL BUDGET.

3. WHO AUDITS MILITARY EXPENDITURES? IN ADDITION TO THE REVIEWS CARRIED OUT BY THE PARLIAMENTARY COMMITTEE, THE MOD IS DIRECTLY AUDITED BY THE SUPREME AUDIT OFFICE, WHICH AUDITS THE MANAGEMENT OF STATE RESOURCES FOR ALL DEPARTMENTS OF THE GOS. ANOTHER BODY, WHICH MAY REVIEW THE MOD'S SPENDING, IS A SPECIAL CONTROL SECTION OF THE MOF. THIS UNIT CONDUCTS RANDOM INSPECTIONS AT ALL DEPARTMENTS WITHIN THE GOS, FOCUSING ON SPECIFICALLY SELECTED OPERATIONS AND/OR PURCHASES. THE OFFICE OF THE CABINET ALSO HAS SOME, ALTHOUGH LIMITED, COMPETENCE.

4. TO WHOM ARE THE AUDITS REPORTED? THE AUDIT REPORTS ARE SUBMITTED TO THE CABINET, THE MINISTER OF DEFENSE, THE MINISTER OF FINANCE AND THE PARLIAMENT. CIVILIANS DEALING WITH THE DEFENSE AUDIT INCLUDE MEMBERS OF PARLIAMENT AND THE CABINET, AS WELL AS OFFICERS OF THE MOD AND THE MOF.

5. ARE ANY OF THE PEOPLE WHO RECEIVE THE AUDITS CIVILIAN AUTHORITIES? ALL OF THE AGENCIES LISTED IN PARAGRAPH FOUR, EXCEPT THE MOD, ARE CIVILIAN AGENCIES. BY SLOVAK LAW, THE MINISTER OF DEFENSE MUST ALSO BE A CIVILIAN. ACCORDING TO THE MOD, AS MANY AS 80 PERCENT OF ITS PERSONNEL ARE CIVILIANS. IN 2004, SLOVAKIA BECAME A MEMBER OF NATO, AND THE MOD ADOPTED A PLAN OF INCREASING ITS CIVIL MANAGEMENT.

6. TO THE BEST OF POST'S ABILITY, OUTLINE ANY DEFICIENCIES IN THE AUDIT PROCESS. POST DOES NOT HAVE THE RESOURCES TO EXAMINE THE ADEQUACY OF GOS AUDITING PROCEDURES.

7. PROVIDE AS MUCH INFORMATION AS POSSIBLE REGARDING THE NATIONAL BUDGET PROCESS AND IN PARTICULAR THE MILITARY COMPONENT OF THE BUDGET. THE STATE BUDGET IS THE BASIC INSTRUMENT OF GOVERNMENT FINANCIAL POLICY IN SLOVAKIA. THE CABINET DEVELOPS A BASIC BUDGETARY OUTLOOK FOR THE NEW BUDGET YEAR, AND THEN, ON THE BASIS OF THAT OUTLOOK, THE MOF CREATES THE DETAILS OF BUDGETARY ALLOCATIONS FOR MINISTRIES AND OTHER BUDGET-FINANCED BODIES.

8. THE MOD USUALLY BEGINS PREPARING ITS BUDGET NO LATER THAN JUNE, AFTER THE MOF PUBLISHES INSTRUCTIONS ON DRAFTING THE BUDGET. LIMITS ON BUDGETARY ALLOCATIONS FOR EACH MINISTRY ARE OBLIGATORY. THE MOD ISSUES INSTRUCTIONS AND SETS PRIORITIES FOR THE ASSEMBLY OF THE BUDGET FOR THE UPCOMING YEAR, WHICH IS WORKED OUT ON THE BASIS OF DETAILED ESTIMATES OF EXPENDITURES. THIS DETAILED PROPOSAL MUST BE SUBMITTED TO THE MOF BY THE END OF JULY.

9. THE BUDGET PROPOSAL IS THEN ASSEMBLED BY THE MOF AND RETURNED TO THE CABINET FOR A SECOND REVIEW. AFTER THE CABINET GIVES IT FINAL APPROVAL, THE PROPOSAL MUST BE SUBMITTED TO PARLIAMENT BY OCTOBER 15. UNLIKE OTHER LAWS, THE STATE BUDGET DRAFT ONLY HAS TWO READINGS. ONCE SUBMITTED TO PARLIAMENT, THE PROPOSAL IS DISTRIBUTED TO ALL PARLIAMENTARY COMMITTEES INCLUDING THE COMMITTEE FOR DEFENSE AND SECURITY. IF NO AMENDMENTS ARE APPROVED, THE FINAL READING STARTS IMMEDIATELY WITH THE VOTE ON THE BUDGET AS A WHOLE. HOWEVER, IF ANY AMENDMENTS HAVE BEEN APPROVED, THE DEBATE IN THE FINAL READING IS LIMITED ONLY TO THE AMENDED PARTS OF THE BUDGET PROPOSAL.

10. IF THE PARLIAMENT IS NOT ABLE TO APPROVE THE PROPOSED STATE BUDGET BY THE END OF THE YEAR, THE GOVERNMENT OPERATES ON A PROVISIONAL BUDGET FOR THE FIRST QUARTER OF THE YEAR; THIS OCCURRED IN 1999. IF THE BUDGET IS APPROVED, THE

PRESIDENT MUST THEN SIGN IT INTO LAW OR RETURN IT TO THE PARLIAMENT. IN EFFECT, THE PRESIDENT HAS LITTLE POWER OVER THE BUDGET.

11. THE INTERNATIONAL MONETARY FUND HAS PRAISED SLOVAKIA FOR ITS CONTINUED EFFORTS TO IMPROVE FISCAL MANAGEMENT AND TRANSPARENCY. IN 2004, THE GOS INTRODUCED A THREE-YEAR FISCAL FRAMEWORK AND MADE SIGNIFICANT PROGRESS IN ADOPTING THE EUROPEAN UNION'S PREFERRED FISCAL REPORTING METHOD, ESA-95, BASED ON ACCRUAL BUDGETING. THE GOS IS EXPECTED SOON TO

INTRODUCE THREE-YEAR EXPENDITURE CEILINGS THAT WOULD BE SUBMITTED TO PARLIAMENT FOR APPROVAL. THIS WOULD ENTAIL SPECIFYING SUB-CEILINGS ON KEY COMPONENTS OF PUBLIC SPENDING THAT NEED TO BE REDUCED, AND IDENTIFYING MEASURES TO MAINTAIN THESE MEDIUM-TERM EFFORTS.

12. ARE PRODUCTIVE DEVELOPMENT OBJECTIVES PRIORITIZED OVER UNPRODUCTIVE? THE TRANSITION FROM A PLANNED TO A MARKET ECONOMY IN THE PAST YEARS HAS FORCED STRINGENT LIMITS ON SLOVAK DEFENSE EXPENDITURES. THE BULK OF MILITARY EXPENDITURES GO TO FINANCE BASIC OPERATIONAL COSTS AND MILITARY TRAINING, WHILE MODERNIZATION IS LIMITED. DEFENSE EXPENDITURES HOVER AROUND 2.0 PERCENT OF GDP, THE LEVEL RECOMMENDED BY NATO.

13. IS THERE A MECHANISM FOR BUDGET PRIORITIZATION DEBATE? AFTER THE CABINET SUBMITS THE STATE BUDGET TO THE PARLIAMENT, VARIOUS COMMITTEES DISCUSS THE BUDGET PROPOSAL AND PRIORITIES AND RECOMMEND CHANGES TO IT BEFORE IT IS SUBMITTED TO THE FULL PARLIAMENT FOR APPROVAL.

14. DOES THE COUNTRY'S DEFENSE BUDGET INCLUDE ARMY, POLICE AND SECURITY FORCES? DEFENSE EXPENDITURES ARE DEFINED AS THOSE MADE BY THE NATIONAL GOVERNMENT SPECIFICALLY TO MEET THE NEEDS OF THE ARMED FORCES (NATO SURVEY DPAO 2001 0590). THEREFORE, THE ARMY, MILITARY POLICE AND MILITARY INTELLIGENCE ARE IN THE MOD BUDGET. PARAMILITARY FORCES OF THE MINISTRY OF INTERIOR (MOI) AND THE POLICE ARE INCLUDED IN THE MOI BUDGET. THE RAILWAY PARAMILITARY FORCES AND RAILROAD POLICE ARE INCLUDED IN THE MINISTRY OF TRANSPORT, POST AND TELECOMMUNICATIONS BUDGET. PENITENTIARY AND JUDICIAL POLICE ARE PAID FROM THE MINISTRY OF JUSTICE BUDGET.

15. TO POST'S KNOWLEDGE ARE THERE SIGNIFICANT OFF-BUDGET MILITARY RECEIPTS? TODAY, SLOVAKIA DOES NOT HAVE SIGNIFICANT OFF-BUDGET MILITARY RECEIPTS. HOWEVER, IN THE PAST, THERE WERE SUBSTANTIAL OFF-BUDGET RECEIPTS, SUCH AS UNITED NATIONS PEACEKEEPING OPERATIONS REIMBURSEMENTS AND REVENUES FROM THE MILITARY AVIATION ACADEMY.
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